

## **IMPACT OF ECONOMIC REFORMS ON REGIONAL RURAL BANKS WITH REFERENCE TO CHAITANYA GODAVARI GRAMEENA BANK**

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### **ABSTRACT**

Economic Reforms were introduced by the Government of India in July 1991. The Objective of RRBs was to provide banking facilities, institutional credit to the weaker sections of rural society. RRBs are sponsored by the Commercial banks. Remarkable initiatives taken by the Government of India affecting the Indian economy. A number of initiatives were taken by the Reserve Bank of India for improving the efficiency of the banking sector. In this paper an attempt is made to examine the impact of the reforms on regional rural banks and with special reference to chaitanya godavari grameena bank. After the completion of 23 years of second phase reforms it is interesting to assess the impact of reforms on the regional rural banks. It is intended to examine the performance of pre- amalgamation and post- amalgamation of chaitanya grameena bank and Godavari grameena bank.

**KEYWORDS:** Economic Reforms, Chaitanya Godavari Grameena Bank, Performance Etc

### **INTRODUCTION**

The process of Liberalisation, Privatisation and Globalisation of the Indian economy has reaping expected results in India. Along with the countries in the world, India has also started its journey towards the globalization in order to tap the untapped potential using world class technology, modernization, and full utilization of available resources in India. The new economic policy was adopted because of economic crisis. These reforms gave room for private sector to play a key role in Indian economy. Mr. P. V. Narasimha Rao Government initiated a good number of stabilisation measures in 1991-92. The New Economic Policy since 1991 includes measures introduced in India relating to

- 1) Liberalisation 2) Privatisation 3) Globalisation of the Economy 4) New Public Sector Policy 5) Modernization 6) Fiscal Reforms and 7) **Financial Reforms**

Following Reforms are undertaken in the Financial Sector:

- Reduction in liquidity ratio.
- Abolition of direct credit programme
- Free determination of interest rates
- Making provision for non-performing assets
- Establishment of speedy machinery for recovery of loans by special Tribunals
- Liberal treatment of foreign banks.

## Expansion of RRBs

Money is source of every economic activity which flows from banks. Major portion of masses live in rural area and deal with economic activities in order to facilitate them RRBs were established, with a view to developing the rural economy like Agriculture, trade, commerce, industry and other productive activities. credit facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. All RRBs are jointly owned by the Indian Government, the concerned state government and the sponsor banks, each sharing the issued capital of the RRB in proportion of 50 percent, 15 percent and 35 percent respectively. The first RRB was established on October 2, 1975 and steadily their number reached 196 as on march 31, 2005. The Government of India initiated the process of structural consolidation of RRBs by amalgamating all RRBs sponsored by the same bank within a state. As on march 31<sup>st</sup> 2013, the number of RRBs has further reduced to 64 as on date with over 17, 856 branches in 635 districts.

## Objectives

The following are the objectives of this paper

- To analyse the branch expansion and performance of RRBs
- To analyse the productivity of CGGB before and after amalgamation.
- To offer suggestions for further action to be taken to improve

## METHODOLOGY

The study is based on secondary data. The expansion of RRBs and performance is analysed with the secondary data. The performance of CGGB will be analyzed with the statistical data relating to Chaitanya Grameena bank and Godavari Grameena bank before and after amalgamation. Existing secondary data is collected from annual reports and will be presented in the form of tables and analyzed.

**Table 1: Performance of Regional Rural Banks in India**

Years	No. of RRBs	No. of Branches	No. of Employee per Branch	No. of Districts covered	Population per Branch	Deposits (Rs. in Crores)	Loans and Advances (Rs.in Crores)	Credit-Deposit Ratio (%)
2000-01	196	14,301	4.90	484	84622.99	37,027	15,794	42.66
2001-02	196	14,390	4.86	511	84099.61	43,220	18,629	43.10
2002-03	196	14,433	4.82	516	83849.06	48,346	22,158	45.83
2003-04	196	14,446	4.79	518	83773.60	57,010	26,115	45.81
2004-05	133	14,484	4.76	523	83553.81	62,143	32,871	52.90
2005-06	94	14,494	4.73	525	83496.17	71,329	38,520	54.00
2006-07	90	14,520	4.70	534	83346.65	83,144	47,326	56.92
2007-08	90	14,761	4.60	594	81985.87	99,093	57,568	58.09
2008-09	86	15,181	4.51	616	79717.64	1,20,189	65,609	54.59
2009-10	82	15,475	4.22	619	78203.13	1,45,035	79,157	54.58
2010-11	82	15,658	4.14	621	77289.14	1,63,928	98,244	59.93
2011-12	82	16,909	4.39	638	NA	1,86,336	1,16,385	62.46
2012-13	64	17,856	NA	635	NA	NA	1,39,837	NA

Source: NABARD annual reports

From the above table it is evident that the growth was achieved by the year 2000. In the year 1975 there are only 6 RRBs and 17 branches. Extended its services to 12 districts. In the year 1980 there are 85 RRBs and 3279 branches. which had its presence in 144 districts. By December 1987 the RRBs rose to 196 from 85 in 1980 covering 363 districts from mere 144 districts in 1980 having 13,353 branches by 1987. In 1975 there are total deposits were 20 lakhs and advances were 10 lakhs with CD ratio of 50%.

**Impact Factor (JCC): 4.2234**

**Index Copernicus Value (ICV): 3.0**

## Banking Reforms in RRBs

### First Phase: (1993-2000)

Reforms were started in 1993 with a view to improve the financial health and operational viability of RRBs. Based on the recommendations of the Narasimham committee Report (1992), Various measures including recapitalisation of branch network, providing better access to non-fund business expanding avenues of investment and advances, upgrading the level of the technology. as a result of reforms performance of RRBs have were quite satisfactory.

### Second Phase: (2004-2010)

The second phase of reform started in 2004-05 with the structural consolidation of RRBs b amalgamation of RRBs of the same sponsor bank with in a state. Capital support aggregating Rs. 1,796 crore was provided during the period 2007-08 to 2009-10 as part of this process. In the year 2004-05 no of RRBs are 133 with 14,484 branches decrease RRBS and branches from previous year. From 2004 onwards the branches and RRBs are also decreasing but the CD ratio is increasing constantly.

### Third Phase: (2010 Onwards)

Based on the recommendations of Dr. K. C. Chakrabarty committee (2010), 40 RRBs have been taken up for recapitalisation to enable them to achieve and sustain a CRAR of 9 percent, in November 2010, the branch licensing policy was liberalised which allowed RRBs to open branches in Tier 3 to Tier 6 centres (with population of upto 49,999 as per 2001 census) without prior approval from the Reserve Bank,

It is drawn from the above table that by 2010 the RRBs have been reduced to 82 with 16001 branches attained the incremental CD ratio of 59.51%.

**Table 2: CGGB Productivity before Amalgamation Amount (Rs in 000's)**

Year	Loan Per Branch	Deposits Per Branch	Assets Per Branch	Business Per Branch	Profits Per Branch
1999-2000	14592.56	21905.39	31265.77	36497.95	487.61
2000-2001	17124.10	26548.09	37468.46	43672.19	315.51
2001-2002	21701.20	30462.04	43003.43	52163.24	445.34
2002-2003	25830.40	33831.41	46988.35	59661.81	718.63
2003-2004	28013.21	34298.06	47008.71	62311.27	572.20
2004-05	35958.14	34946.12	52731.01	70904.26	698.94

**Source:** various annual reports of chaitanya grameena bank and Godavari grameena bank

Chaitanya Godavari Grameena Bank is under the sponsorship of Andhra Bank. Previously, there were two separate banks for Guntur District and the Godavari District known as Chaitanya Grameena Bank in Guntur District and Godavari Grameena Bank in Godavari Districts. Now both the banks are amalgamated with the name Chaitanya Godavari Grameena Bank.

Government of India, Ministry of Finance has announced the amalgamation of Chaitanya Grameena Bank and Godavari Grameena Bank sponsored by Andhra Bank into a single Regional Rural Bank with its Head Office at Guntur, Andhra Pradesh, vide Notification bearing F. No. 1/26/2005-RRB, Dated 01.03.2006.

The Authorized Share capital of the Bank is Rs.500 Lakhs and in terms of section 5 of the RRB Act 1976, the Bank has a paid up capital of Rs.200 Lakhs contributed by Government of India, Andhra Bank and Government of Andhra

Pradesh in the ratio of 50:35:15. As a part of restructuring process, an additional share capital of Rs.544.22 Lakh was infused by the shareholders in the ratio mentioned above.

**Table 3: Post-Amalgamation Productivity of CGGB (Amount Rs in 000's)**

Year	Loan Per Branch	Deposits Per Branch	Business Per Employee	Assets Per Branch	Business Per Branch	Profits Per Branch
2005-06	39889.317	35595.470	18023.053	55303.34	75484.788	840.27
2006-07	45635.134	40077.932	21610.376	64366.62	85713.067	879.46
2007-08	54425.303	48449.325	25937.229	75050.57	102874.629	1428.99
2008-09	62919.142	59123.00	31640.555	88847.10	122042.142	883.70
2009-10	66103.079	63458.326	33813.183	94448.63	129561.405	1016.72
2010-11	80706.038	72300.438	42501.798	123498.75	153006.476	1196.55
2011-12	99028.405	81845.827	48012.382	139679.28	180874.232	1299.12
2012-13	140056.984	88980.414	64574.420	183517.96	229037.398	2421.73

Source: various annual reports of CGGB

### Amalgamation effect on Branch Productivity

Branch is functional unit and is a representative of business of a bank. Possessing geographically wide spread network of branches is a valuable asset for any bank. It would assist mobilizing and disbursing huge amount of funds over a wide portfolio. Branches Productivity is vital for the success of any bank. Productivity in general in the ratio of output to input. In a manufacturing organizations the value added or net output is taken as the measure of Productivity. In the service sector it is difficult to quantify the Productivity in terms of output because of intangible nature of the product.

### Effect of Amalgamation on Employee Productivity

The major challenge faced by banks today is to protect the falling margins due to impact of competition and technology. There is an imperative need for integration of technology with employee Productivity. This is possible with the help of efficient human resource management. In a service Industry, like banking, human resource is the most important factor because of its ability in deploying all the resources of an organisation to attain the desired goals. The Productivity and efficiency of the staff employed in banking services is a matter of significant importance. With increased competition in the banking sector, efficiency and effectiveness have become the rules as banks constantly strive to improve

**Table 4: Comparative Analysis of Productivity of Pre and Post Amalgamated CGGB**

Type of Ratios	Mean ( Rs. in Thousands)	
	Before Amalgamation	After Amalgamation
Loan Per Branch	23869.94	73595.43
Deposits Per Branch	30331.85	61228.84
Assets Per Branch	43077.62	103089
Business Per Branch	54201.79	134824.3
Profit Per Branch	539.71	1245.82

Source: self calculated

### Findings of the Study

- The total cost of CGGB has been increasing
- The ratio of interest on deposits of CGGB has got fluctuated, while the ratio of interest on borrowings has got

increased during the study period.

- The CGGB is committed to disbursement of most of its funds towards advances to the targeted sections, so as to earn something more without putting any effort.
- The Interest earnings of CGGB constituted significantly major share to the total earnings. The Average growth rates of interest earnings have shown fluctuating trend. In terms of Average growth rates of total earnings also the same trend is observed.
- While the interest committed of CGGB has been expanding, interest earnings are increasing at a decreasing rate. It is also understood that the percentage share of interest payment in interest earnings is growing up. It can, therefore be concluded that the bank is facing increasing difficulty on the front of spread.
- The Profitability Ratio fell down. It is clearly understood that though the profitability performance of the bank shows a negative value.

## CONCLUSIONS

This paper examined the impact of reforms on rural banks. Only after the economic reforms in 1991 the reforms in banks started. Economic reforms paved way for the rural banks reforms which enabled the chaitanya Godavari grameena bank to form out of chaitanya grameena bank of Guntur and Godavari grameena bank of Godavari districts. With the amalgamation overhead costs were reduced and making steady profits expanding their branch network in the three districts. It is found that rural banks were liberalized to operate more freely to capture the rural banking on par with commercial banks. To a great extent they are succeeding their Endeavour to tap the untapped potential of rural banking but the rural masses have confidence and rely on commercial as they provide hassle free loans and maintain a modern technology facilitates the customer with many types of credit and services to its customers. Now a days rural banks also providing the same facilities like the commercial banks so their performance has been increasing for quite a few years onwards. This paper also examined the branch and employee productivity in particular.

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